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Initial Review of Key Points from CBO's January Budget Outlook

This morning, the Congressional Budget Office released its Budget and Economic Outlook for Fiscal Years 2005 to 2014. In addition to the information provided by the Budget Committee and other sources, below are some key points you may wish to keep in mind.

- **Reasonable adjustments to the baseline INCREASE the deficit.** By law, CBO must produce a current-law baseline. For the January report this means that CBO assumes that the tax reductions enacted by Republicans over the last several years will expire and that the \$87 billion Iraq Supplemental enacted last fall will continue to be appropriated each year. Most Republicans have argued for making the tax cuts permanent and for removing the \$87 billion Supplemental from the baseline. After taking both actions, the deficit is even larger than indicated by the CBO Baseline. *(NOTE: all figures reflect the unified deficit, which assumes continued borrowing from the surpluses in trust funds – namely Social Security.)*

In Billions of Dollars

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Extend Expiring Tax Provisions (Static Score)	6	-56	-110	-113	-108	-108	-110	-233	-331	-341	-356
Related Debt Service Costs	0	-1	-5	-11	-17	-24	-31	-41	-57	-77	-99
Total	6	-57	-115	-124	-125	-132	-141	-274	-388	-418	-455
Remove the \$87 Billion Iraq Supplemental from the Baseline	0	39	72	84	90	93	96	99	100	103	105
Related Debt Service Costs	0	1	3	8	13	18	24	30	37	44	51
Total	0	40	75	92	103	111	120	129	137	147	156
CBO's Baseline Deficit	-477	-362	-269	-267	-278	-268	-261	-162	-24	-16	13
Baseline Deficit After Extending Tax Provisions and Removing \$87 Billion Supplemental	-471	-379	-309	-299	-300	-289	-282	-307	-275	-287	-286

(See pages 6 and 7 of CBO Report)

- **CBO's baseline has discretionary spending growing slower than the President's expected increase.** Backing out the \$87 billion Iraq Supplemental, CBO's baseline has total discretionary Budget Authority growing by 3.3%. The President stated in his State of the Union Address he intends to submit a Budget with approximately 4% growth in total discretionary spending. The difference is about \$5 billion.
- **CBO's baseline does not include other likely spending increases.** CBO's baseline assumes that highway spending continues under the current-law baseline. Unless offset with tax increases (which are opposed by most Republicans), an expected increase in highway funding could dramatically increase the size of the deficit. If the size of the highway trust fund is increased (and the money is spent) by moving revenue currently going into the general fund into the highway fund, then unless there are dollar for dollar general fund spending cuts the deficit will increase by each dollar of new highway spending.
- **Congress will likely have to raise the statutory debt limit again this year.** CBO states that under the current baseline, the statutory debt limit will be breached sometime between July and September. Since the House reinstated the Gephardt Rule last year, a bill increasing the debt limit could be deemed passed by the House by the same vote by which the Budget Resolution passes.
- **Legislated changes since last August added \$681 Billion to the deficit over the next ten years.** Driven primarily by the cost of the Medicare bill and the related debt service costs, legislated changes added \$681 billion to the ten-year deficit total.
- **Achieving a unified budget surplus will require significant restraint on spending.** Balancing the budget by holding the line on spending will require significant restraint in both discretionary and mandatory spending.

In Billions of Dollars

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CBO's Baseline Outlays	2,294	2,411	2,525	2,652	2,783	2,912	3,047	3,198	3,296	3,457	3,616
Add Interest Cost of Extending Expiring Provisions	0	1	5	11	17	24	31	41	57	77	99
Remove Impact of \$87 Billion Iraq Supplemental	0	-40	-75	-92	-103	-111	-120	-129	-137	-147	-156
Adjusted Outlay Baseline	2,294	2,372	2,455	2,571	2,697	2,825	2,958	3,110	3,216	3,387	3,559
Baseline Deficit After Extending Tax Provisions and Removing \$87 Billion Supplemental	-471	-379	-309	-299	-300	-289	-282	-307	-275	-287	-286
Adjusted Deficit as a Percent of Total Outlays	20.53%	15.98%	12.59%	11.63%	11.12%	10.23%	9.53%	9.87%	8.55%	8.47%	8.04%